

Division of Oil and Gas
402 West Washington St., Rm.W293
Indianapolis, IN 46204-2748
(317) 232-4055
(317) 232-1550 fax

**NOTICE OF INFORMAL HEARING ON APPLICATION FOR FORCED POOLING
FILED BY TREY EXPLORATION, INC.**

**STECKLER UNIT
S ½ , SEC 14, TWP 1 SOUTH, RNG 12 WEST, KNOX COUNTY, IN
PART OF SEC. 23, TWP 1 SOUTH, RNG 12 WEST, KNOX COUNTY, IN
PART OF SEC. 15, TWP 1 SOUTH, RNG 12 WEST, KNOX COUNTY, IN
PART OF SEC 22, TWP 1 SOUTH, RNG 12 WEST, KNOX COUNTY, IN**

CAUSE NO. DOG-6-2014

TO: Miles Steckler Farms, LLC
2157 S. Robinson Road
Vincennes, IN 47591-8737

Purpose Of This Notice

You are being provided with this notice because a petition has been submitted to our office on behalf of Trey Exploration, Inc., requesting that certain interests owned by the following be incorporated into their proposed Steckler Unit:

Miles Steckler Farms, LLC
2157 S. Robinson Road
Vincennes, IN 47591-8737

This unit is being established for the purpose of drilling for and producing crude oil within the following described lands:

Steckler "A" - The South Half of Section 14, Township 1 South, Range 12 West, and all of that portion of Section 23 lying north of the White River, Township 1 South, Range 12 West; and

Steckler "C" – The East Half of the Southeast Quarter and the Southwest Quarter of the Southeast Quarter of Sec. 15, Township 1 South, Range 12 West, and all that portion of the Northeast Quarter lying North of the Center of the White River in Sec. 22, Township 1 South, Range 12 West, all in Knox County, Indiana.

Background Information

Indiana law requires the protection of what are known as "correlative rights." This means that a property owner's opportunity to receive the benefits of the oil, gas and other hydrocarbons located beneath their acreage cannot be unreasonably taken away. Any owner of oil and gas interests is entitled to share in the production of oil and gas produced from their property. This may result either from the drilling of a well by the owner or by conveying their oil and gas interests to another party who would then drill a well and allocate a proportionate share of the proceeds from the production to the owner. Most owners choose to lease their oil and gas interests to another party rather than assume the risk, expense, and liability associated with the drilling of their own well.

In order to prevent waste of oil or natural gas and the drilling of unnecessary wells, Indiana regulations also establish requirements for an operator proposing to drill a well for oil and gas purposes. According to 312 IAC 16-5-1 and 16-5-2, operators are required to form a drilling unit, also known as a spacing unit, of sufficient size, so as to effectively and economically drain all of the oil or gas resources there under, while minimizing the environmental impact.

Petitioner has represented that your interests within this proposed unit are already the subject of leases dated October 24, 1945 and January 26, 1945 and are recorded in the office of the recorder of Knox County, Indiana. Furthermore, Petitioner has represented that your interest under the aforementioned lease consists of a royalty interest (RI) of .0625 in Tract 1 and a royalty interest (RI) of .0625 in tract 2. Indiana law at IC 14-37-9, allows for the integration of interests in instances where not all of the oil and gas interest owners have executed a lease, or in this case, have not consented to the pooling of your interests to allow the operator to develop the oil resource in a manner with avoids waste and the drilling of unnecessary wells. This process is sometimes referred to as "forced pooling". If an owner has chosen not to negotiate the terms of exploration and production, the compulsory integration process is intended to safeguard their correlative rights.

Accordingly, a well operator may submit a petition for involuntary integration to the Division of Oil and Gas whenever the integration of interests is necessary to prevent the stated statutory purposes of avoiding waste and preventing the drilling of unnecessary wells. Prior to submitting a petition, a well operator is required to obtain a substantial majority of the interests within the drilling unit and must also have made a diligent and reasonable attempt to obtain the consent of all owners of oil and gas interests within the drilling unit.

Petitioner has represented that they have made diligent attempts to obtain a pooling unit for the oil and gas interests or consent to voluntarily integrate such interests from Miles Steckler Farms, LLC within their proposed Steckler Unit, and that no such agreement has been reached as of the date of their Petition. Petitioner has indicated that all of the other interest owners within the proposed Steckler Unit, except you, have consented to the pooling of their interests and that they have made a diligent and reasonable attempt to obtain your consent to the pooling of your oil and gas in the proposed Steckler Unit.

A copy of the petition is included for your review. Copies may also be viewed from our website at <http://www.in.gov/dnr/dnroil/3790.htm>. A hyperlink to the petition can be viewed by selecting the ([View Petition](#)) hyperlink for this cause number (DOG-6-2014).

In considering the petition the Division of Oil and Gas must ensure that owners receive an equitable share of the crude oil and natural gas produced from the integrated drilling unit. For primary production wells, owners usually are assigned a percentage share based upon the ratio of the acreage you own and the total acreage in the unit. Petitioner is proposing that the participation factors for production on this lease be allocated among the various leases based upon the proportion to which their acreage bears to the unit as a whole. For example a 25 acre parcel which was part of a 100 acre unit would be assigned a 0.25 or 25% interest in the oil or gas production multiplied by a factor which reflects the specific oil and gas interests which the owner possesses (i.e. $1/8^{\text{th}}$ royalty interest, $7/8^{\text{th}}$ working interest, etc.).

Your Options

It is important to understand that, at any time, should you decide to voluntarily sign a mutually acceptable lease with the petitioners, there will be no need to proceed further with this process to integrate your interests.

Since your interests are located within a drilling unit to be duly established under Indiana regulations, and that integration terms have not been agreed upon through the execution of a lease or pooling agreement, the likely outcome of forced pooling or integration procedure will be to integrate your 0.0625 royalty interest in Tract 1, and 0.0625 royalty interest in Tract 2, proportionately into the Steckler Unit.

Notice of Informal Hearing – Cause No. DOG-6-2014

An informal hearing to consider the petition and receive comments from interested persons is scheduled for Wednesday, December 17, 2014 at 12:00 p.m. (Eastern) at the Indianapolis Office of the Division of Oil and Gas, located at 402 West Washington Street, Room W293, Indianapolis, Indiana, 46204. This hearing is being conducted as required by IC 14-37-3-16(4) and 312 IAC 16-2-3.

Again, you are reminded that at any time prior to the integration hearing, you may voluntarily enter into a pooling agreement regarding the development of your oil and gas resources.

Any interested person may participate in the informal hearing via teleconference and present relevant oral or written comments in person or by counsel. To participate in the conference, please dial 1-877-422-1931. At the prompt enter 6808842673.

If you have questions pertaining to the petition, the informal hearing process, or any of your options described above, please contact me at 317-232-4058 or by e-mail at hmcdivitt@dnr.in.gov. or Jim AmRhein at 317-232-6961 or by e-mail at jamrhein@dnr.in.gov. Comments concerning the petition may be submitted:

- (1) in person during the informal hearing;
- (2) in writing to the address below provided they are postmarked no later than **December 17, 2014**;
- (3) by fax to (317) 232-1550 no later than **4:00 PM (Eastern)** on **December 17, 2014**; or
- (4) by email no later than **4:00 PM (Eastern)** on **December 17, 2014**, to hmcdivitt@dnr.in.gov:

Herschel L. McDivitt, Director
Division of Oil and Gas
Department of Natural Resources
Cause No. DOG-6-2014
402 West Washington Street, Room W-293
Indianapolis, IN 46204

All comments will be taken into consideration whether or not the commenter attends the informal hearing. After reviewing all oral and written comments received, the Division will either approve or deny the Petition for Integration of Interests filed by Ally Exploration, LLC in a written order that will be subject to administrative review under Indiana Code 4-21.5.

November 12, 2014

DATED



Herschel L. McDivitt
Director
Indiana Division of Oil and Gas